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TAGS: [ENRG](#) [TU](#)
SUBJECT: AMBASSADOR JEFFREY'S MEETING WITH ENERGY MINISTER
YILDIZ

Classified By: Ambassador James Jeffrey for reasons 1.4 b, d

¶1. (C) Summary: Ambassador Jeffrey met with Energy Minister Yildiz July 7 to get a readout of Yildiz's Moscow trip and an update on Turkey - Azeri negotiations. Yildiz confirmed that the Nabucco IGA signing ceremony would take place as planned in Ankara on July 13. He said negotiations with the Azeris are continuing and Turkey expects a response to its most recent offer when an Azeri delegation comes to the IGA ceremony. He was confident Turkey would eventually reach a deal with the Azeris, and said the recent Gazprom-Socar gas purchase agreement would not affect negotiations because the gas sold to Russia in that deal would not come from Shah Deniz phase 2. In Russia, Yildiz discussed extension of the expiring Westline supply contract, a preliminary study for a revised Bluestream 2 project (which he thought could possibly provide gas to the Nabucco project in addition to supplying Israel and India), and the long-delayed nuclear tender, about which Yildiz said the GOT needs to make a final decision by the end of July (i.e., before PM Putin's planned August 6 visit). Yildiz indicated strong GOT interest in adding nuclear power to Turkey's energy mix and said the second nuclear tender would offer a more attractive public-private ownership structure that should get multiple bids. End summary.

¶2. (C) Yildiz has been in almost constant motion since he was appointed Minister of Energy on May 30, traveling Azerbaijan, Turkmenistan, Italy, Iraq and twice to Russia (Sochi and, most recently, to Moscow on July 2nd). He appeared much more confident in his role as minister than he was in early June.

¶3. (C) Yildiz confirmed that the Nabucco IGA signing ceremony would go forward as planned on July 13 in Ankara. He said the agreement had been delayed due to differences of opinion between governments and EU companies, and by "hesitations" on the part of Turkey (which he did not describe). There were some shortcomings that needed to be resolved (apparently referring to the sharing of tax revenues), and Turkey undeservedly was tarred as the party creating obstacles. But the final document is better for it. Turkey is not a source country for Nabucco, it is only a transit state. Nabucco should have five or six sources, including Azerbaijan, Iraq, Turkmenistan, and Iran.

¶4. (C) Ideally, said Yildiz, Turkey would have finalized its gas purchase negotiations with Azerbaijan before the IGA signing. Turkey made an offer to Azerbaijan and is waiting for a response. The Azeris say that the offer is still under consideration. Turkey has invited the Azeris to the Nabucco IGA signing ceremony and will continue discussions then. Transparency and a strategic perspective are very important in these negotiations, said Yildiz. He was confident that Turkey will eventually buy gas from Azerbaijan. The deal, however, will have to be for both SD phase 1 and phase 2

together and cover both price and quantities. He hopes to get a response from the Azeris next week.

15. (C) Concerning the recent Gazprom - Socar gas agreement, Yildiz said the gas sold to Russia will not affect the Nabucco project or Turkey's negotiations with Azerbaijan. The gas sold to Russia will not come from Shah Deniz phase 2 and in fact it cannot, Yildiz said, since the agreement calls for gas to be delivered in 2010 while SD 2 will not go online until 2015. So he was not worried by the agreement.

16. (C) Yildiz visited Moscow on July 2 and met with Energy Minister Shamtov and Deputy Prime Minister Sechin. Yildiz said he discussed four issues with the Russians: Extending the Westline gas supply contract that expires in 2011; Bluestream 2; the Turkey-Russia trade balance (Note: Turkey runs a large trade deficit with Russia, \$31 billion in imports in 2008 versus only \$6.5 billion in exports. End note.); and the nuclear power tender. On Bluestream 2, Yildiz said they discussed a preliminary study for a north-south line that would cross Turkey and continue on to Israel and India, and said the marketing, finance and Israeli sides of this proposal were discussed. Sechin's participation in the discussions were unexpected and helpful. Asked if Russian gas from this version of Bluestream 2 could also feed into the Nabucco pipeline, Yildiz said it was possible, and noted that the Russian side is focused on the project's commercial feasibility. There was no substantive discussion of the Southstream project.

17. (C) On the long-delayed nuclear tender, Yildiz said Turkey should have moved towards nuclear power decades earlier and the GOT needs to complete this project because Turkey needs

the energy. The GOT will have to make a clear decision by the end of July whether to say yes or no on the Russian nuclear bid (Comment: this is likely because of the planned visit of Russian PM Putin on August 6, although Yildiz did not link the decision to that visit. End comment.) Ambassador Jeffrey noted that the US Trade and Development Agency was interested in providing technical assistance in making the next nuclear power tender more attractive to international atomic energy companies. Yildiz said the next tender will be for a plant in Sinop (on Black Sea coast). Yildiz asked if US companies would participate in the tender, and Ambassador Jeffrey replied that the US companies he has spoken with indicated they are interested if the terms are attractive. Yildiz said the terms will be attractive enough to get seven or eight bidders. The initial model, based on a private company owning the plant, has received a lot of criticism, and Yildiz believes the next tender will be a public-private partnership with 20-25% state ownership.

18. (C) Ambassador Jeffrey noted the growing interest of Turkish energy companies in Iraq. Although Shell and Turkish state petroleum company TPAO did not win the recent oil tender, it was still early days for energy development in Iraq. Yildiz agreed and said that Turkey has been and will continue to be patient in developing its relations with Iraq, including on energy.

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JEFFREY